

ATLANTIC CITY SHOWBOAT, INC
QUARTERLY REPORT
FOR THE QUARTER ENDED DECEMBER 31, 2006

**SUBMITTED TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

ATLANTIC CITY SHOWBOAT, INC

BALANCE SHEETS

AS OF DECEMBER 31, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	<u>ASSETS:</u>			
	Current Assets:			
1	Cash and Cash Equivalents.....		\$29,639	\$33,081
2	Short-Term Investments.....		0	0
3	Receivables and Patrons' Checks (Net of Allowance for Doubtful Accounts - 2006, \$1,603 ; 2005, \$1,062)....		15,870	19,350
4	Inventories	2	1,725	1,854
5	Other Current Assets.....	4	11,967	13,040
6	Total Current Assets.....		59,201	67,325
7	Investments, Advances, and Receivables.....	5,13	1,631,379	1,528,939
8	Property and Equipment - Gross.....		739,723	729,268
9	Less: Accumulated Depreciation and Amortization.....		(291,640)	(311,688)
10	Property and Equipment - Net.....	6	448,083	417,580
11	Other Assets.....		952	1,155
12	Total Assets.....		\$2,139,615	\$2,014,999
	<u>LIABILITIES AND EQUITY:</u>			
	Current Liabilities:			
13	Accounts Payable.....		\$24,200	\$15,265
14	Notes Payable.....		0	0
	Current Portion of Long-Term Debt:			
15	Due to Affiliates.....		0	0
16	External.....		0	0
17	Income Taxes Payable and Accrued.....		0	0
18	Other Accrued Expenses.....	7	30,017	72,904
19	Other Current Liabilities.....		572	910
20	Total Current Liabilities.....		54,789	89,079
	Long-Term Debt:			
21	Due to Affiliates.....	8	715,000	715,000
22	External.....		0	0
23	Deferred Credits		31,803	28,892
24	Other Liabilities.....	9	1,252,394	1,101,910
25	Commitments and Contingencies.....	13		
26	Total Liabilities.....		2,053,986	1,934,881
27	Stockholders', Partners', or Proprietor's Equity.....		85,629	80,118
28	Total Liabilities and Equity.....		\$2,139,615	\$2,014,999

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF INCOME

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$424,656	\$409,291
2	Rooms.....		43,013	41,157
3	Food and Beverage.....		57,590	53,128
4	Other.....		10,283	8,875
5	Total Revenue.....		535,542	512,451
6	Less: Promotional Allowances.....		144,099	132,076
7	Net Revenue.....		391,443	380,375
	Costs and Expenses:			
8	Cost of Goods and Services.....		216,708	203,308
9	Selling, General, and Administrative.....		45,499	32,126
10	Provision for Doubtful Accounts.....		1,141	195
11	Total Costs and Expenses.....		263,348	235,629
12	Gross Operating Profit.....		128,095	144,746
13	Depreciation and Amortization.....		36,587	34,119
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	22,535	19,810
16	Income (Loss) from Operations.....		68,973	90,817
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(57,740)	(57,755)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		949	(1,292)
20	Nonoperating Income (Expense) - Net.....	12	483	(8,880)
21	Total Other Income (Expenses).....		(56,308)	(67,927)
22	Income (Loss) Before Taxes and Extraordinary Items.....		12,665	22,890
23	Provision (Credit) for Income Taxes.....		7,154	10,231
24	Income (Loss) Before Extraordinary Items.....		5,511	12,659
25	Extraordinary Items (Net of Income Taxes - 2006, \$0; 2005, \$0).....			0
26	Net Income (Loss).....		\$5,511	\$12,659

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF INCOME

FOR THE THREE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	Revenue:			
1	Casino.....		\$99,716	\$100,798
2	Rooms.....		10,094	10,174
3	Food and Beverage.....		13,352	14,641
4	Other.....		2,413	2,295
5	Total Revenue.....		125,575	127,908
6	Less: Promotional Allowances.....		33,928	35,177
7	Net Revenue.....		91,647	92,731
	Costs and Expenses:			
8	Cost of Goods and Services.....		52,123	52,776
9	Selling, General, and Administrative.....		14,899	8,476
10	Provision for Doubtful Accounts.....		587	88
11	Total Costs and Expenses.....		67,609	61,340
12	Gross Operating Profit.....		24,038	31,391
13	Depreciation and Amortization.....		9,583	8,803
	Charges from Affiliates Other than Interest:			
14	Management Fees.....		0	0
15	Other.....	3	5,993	5,365
16	Income (Loss) from Operations.....		8,462	17,223
	Other Income (Expenses):			
17	Interest Expense - Affiliates.....	8	(14,432)	(14,436)
18	Interest Expense - External.....		0	0
19	CRDA Related Income (Expense) - Net.....		269	291
20	Nonoperating Income (Expense) - Net.....	12	21	246
21	Total Other Income (Expenses).....		(14,142)	(13,899)
22	Income (Loss) Before Taxes and Extraordinary Items.....		(5,680)	3,324
23	Provision (Credit) for Income Taxes.....		438	2,256
24	Income (Loss) Before Extraordinary Items.....		(6,118)	1,068
	Extraordinary Items (Net of Income Taxes -			
25	2006, \$0; 2005, \$0).....		0	0
26	Net Income (Loss).....		(\$6,118)	\$1,068

The accompanying notes are an integral part of the financial statements.
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ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2005 AND THE TWELVE MONTHS ENDED DECEMBER 31, 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	Common Stock		Preferred Stock		Additional Paid-In Capital (g)		Retained Earnings (Accumulated Deficit) (i)	Total Stockholders' Equity (Deficit) (j)
			Shares (c)	Amount (d)	Shares (e)	Amount (f)				
1	Balance, December 31, 2004.....		1,500	\$70,492	0	\$0	\$0	\$0	(\$3,033)	\$67,459
2	Net Income (Loss) - 2005.....								12,659	12,659
3	Contribution to Paid-in-Capital.....									0
4	Dividends.....									0
5	Prior Period Adjustments.....									0
6										0
7										0
8										0
9										0
10	Balance, December 31, 2005.....		1,500	70,492	0	0	0	0	9,626	80,118
11	Net Income (Loss) - 2006.....								5,511	5,511
12	Contribution to Paid-in-Capital.....									0
13	Dividends.....									0
14	Prior Period Adjustments.....									0
15										0
16										0
17										0
18										0
19	Balance, December 31, 2006		1,500	\$70,492	0	\$0	\$0	\$0	\$15,137	\$85,629

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
1	CASH PROVIDED (USED) BY OPERATING ACTIVITIES..		\$65,500	\$69,320
	CASH FLOWS FROM INVESTING ACTIVITIES:			
2	Purchase of Short-Term Investments			
3	Proceeds from the Sale of Short-Term Investments			
4	Cash Outflows for Property and Equipment.....		(64,775)	(73,704)
5	Proceeds from Disposition of Property and Equipment.....		512	3
6	CRDA Obligations		(4,679)	(4,602)
7	Other Investments, Loans and Advances made.....			
8	Proceeds from Other Investments, Loans, and Advances			
9	Cash Outflows to Acquire Business Entities.....		0	0
10				
11				
12	Net Cash Provided (Used) By Investing Activities.....		(68,942)	(78,303)
	CASH FLOWS FROM FINANCING ACTIVITIES:			
13	Proceeds from Short-Term Debt			
14	Payments to Settle Short-Term Debt.....		0	(231)
15	Proceeds from Long-Term Debt			
16	Costs of Issuing Debt.....			
17	Payments to Settle Long-Term Debt.....		0	(146)
18	Cash Proceeds from Issuing Stock or Capital Contributions...		0	0
19	Purchases of Treasury Stock.....			
20	Payments of Dividends or Capital Withdrawals.....			
21				
22				
23	Net Cash Provided (Used) By Financing Activities.....		0	(377)
24	Net Increase (Decrease) in Cash and Cash Equivalents.....		(3,442)	(9,360)
25	Cash and Cash Equivalents at Beginning of Period.....		33,081	42,441
26	Cash and Cash Equivalents at End of Period.....		\$29,639	\$33,081
	CASH PAID DURING PERIOD FOR:			
27	Interest (Net of Amount Capitalized).....		\$105,210	\$57,331
28	Income Taxes.....		\$2,337	\$2,428

The accompanying notes are an integral part of the financial statements.
Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC

STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006 AND 2005

(UNAUDITED)

(\$ IN THOUSANDS)

Line (a)	Description (b)	Notes	2006 (c)	2005 (d)
	CASH FLOWS FROM OPERATING ACTIVITIES:			
29	Net Income (Loss).....		\$5,511	\$12,659
30	Depreciation and Amortization of Property and Equipment.....		36,587	34,119
31	Amortization of Other Assets.....		0	0
32	Amortization of Debt Discount or Premium.....			
33	Deferred Income Taxes - Current		884	(7,138)
34	Deferred Income Taxes - Noncurrent		2,911	6,780
35	(Gain) Loss on Disposition of Property and Equipment.....		(225)	(3)
36	(Gain) Loss on CRDA-Related Obligations.....		(949)	1,292
37	(Gain) Loss from Other Investment Activities.....			
38	(Increase) Decrease in Receivables and Patrons' Checks		8,068	(14,732)
39	(Increase) Decrease in Inventories		129	(413)
40	(Increase) Decrease in Other Current Assets.....		189	(945)
41	(Increase) Decrease in Other Assets.....		(137)	(41)
42	Increase (Decrease) in Accounts Payable.....		6,196	3,594
43	Increase (Decrease) in Other Current Liabilities		(43,225)	(714)
44	Increase (Decrease) in Other Liabilities		150,484	115,924
45	Net (Increase) Decrease in Inves., Advances and R.....		(101,263)	(81,403)
46	Amortization of Deferred Finance Charges		340	341
47	Net Cash Provided (Used) By Operating Activities.....		\$65,500	\$69,320

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

	ACQUISITION OF PROPERTY AND EQUIPMENT:			
48	Additions to Property and Equipment.....		(\$64,775)	(\$73,704)
49	Less: Capital Lease Obligations Incurred.....			
50	Cash Outflows for Property and Equipment.....		(\$64,775)	(\$73,704)
	ACQUISITION OF BUSINESS ENTITIES:			
51	Property and Equipment Acquired.....			
52	Goodwill Acquired.....			
53	Other Assets Acquired - net			
54	Long-Term Debt Assumed.....			
55	Issuance of Stock or Capital Invested.....			
56	Cash Outflows to Acquire Business Entities.....		\$0	\$0
	STOCK ISSUED OR CAPITAL CONTRIBUTIONS:			
57	Total Issuances of Stock or Capital Contributions.....		\$0	\$0
58	Less: Issuances to Settle Long-Term Debt.....		0	0
59	Consideration in Acquisition of Business Entities.....		0	0
60	Cash Proceeds from Issuing Stock or Capital Contributions.....		\$0	\$0

* Prior year amounts have been restated to conform to current year presentation

The accompanying notes are an integral part of the financial statements.

Valid comparisons cannot be made without using information contained in the notes.

ATLANTIC CITY SHOWBOAT, INC

SCHEDULE OF PROMOTIONAL EXPENSES AND ALLOWANCES

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2006

(UNAUDITED)
(\$ IN THOUSANDS)

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	427,929	\$36,298		
2	Food	2,095,390	28,057		
3	Beverage	8,799,136	13,848		
4	Travel			6,096	1,067
5	Bus Program Cash	824,572	15,480		
6	Other Cash Complimentaries	1,408,939	47,666		
7	Entertainment	37,126	890		
8	Retail & Non-Cash Gifts	132,315	1,517		
9	Parking				
10	Other	39,090	343	50,659	3,799
11	Total	13,764,497	\$144,099	56,755	\$4,866

*

FOR THE THREE MONTHS ENDED DECEMBER 31, 2006

Line (a)	Description (b)	Promotional Allowances		Promotional Expenses	
		Number of Recipients (c)	Dollar Amount (d)	Number of Recipients (e)	Dollar Amount (f)
1	Rooms	98,170	\$8,638		
2	Food	476,848	6,385		
3	Beverage	1,980,863	3,406		
4	Travel			1,611	282
5	Bus Program Cash	183,574	3,475		
6	Other Cash Complimentaries	315,052	11,592		
7	Entertainment				
8	Retail & Non-Cash Gifts	28,322	341		
9	Parking				
10	Other	10,514	91	14,000	1,050
11	Total	3,093,343	\$33,928	15,611	\$1,332

*Included in the other Promotional Expenses is the cost of House of Blues complimentaries in the amount of \$1,378,672, golf complimentaries in the amount of 261,032 and Boardwalk Hall complimentaries in the amount of 797,324.

*No other individual complimentary service or item within the "Other" category exceeds 5% of that column's total.


ATLANTIC CITY SHOWBOAT, INC STATEMENT OF CONFORMITY, ACCURACY, AND COMPLIANCE

FOR THE QUARTER ENDED DECEMBER 31, 2006

1. I have examined this Quarterly Report
2. All the information contained in this Quarterly Report has been prepared in conformity with the Casino Control Commission's Quarterly Report Instructions and Uniform Chart of Accounts.
3. To the best of my knowledge and belief, the information contained in this report is accurate.
4. To the best of my knowledge and belief, except for the deficiencies noted below, the licensee submitting this Quarterly Report has remained in compliance with the financial stability regulations contained in N.J.A.C. 19:43-4.2(b)1-5 during the quarter.

3/31/2007

Date



Karen Worman

Vice President of Finance

Title

6320-11

License Number

On Behalf of:

ATLANTIC CITY SHOWBOAT, INC

Casino Licensee

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Atlantic City Showboat, Inc. (the "Company"), is a wholly-owned subsidiary of Ocean Showboat, Inc.(OSI), which is a wholly-owned subsidiary of Showboat, Inc. ("SBO"). SBO is a wholly owned subsidiary of Harrah's Operating Company, Inc. ("HOC"), which is a direct wholly owned subsidiary of Harrah's Entertainment, Inc. ("Harrah's"). OSI was incorporated in 1983 and is a holding company with its principal assets being investments in the Company. The Company conducts casino gaming operations and operates full supportive services of hotel, restaurant, bar and convention facilities at the Showboat Hotel and Casino in Atlantic City, New Jersey ("Atlantic City Showboat"). On June 1, 1998, Harrah's, a Delaware corporation, purchased SBO and its subsidiaries.

The Company is licensed to operate the facility by the New Jersey Casino Control Commission (the "CCC") and is subject to rules and regulations established by the CCC. The Company's license is subject to renewal every four years with the current license expiring April 2008.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Allowance for Doubtful Accounts

The Company reserves an estimated amount for receivables that may not be collected. The methodology for estimating the allowance includes using specific reserves and applying various percentages to aged receivables. Historical collection rates are considered, as are customer relationships, in determining specific allowances. As with many estimates, management must make judgments about potential actions by third parties in establishing and evaluating the allowance for bad debts.

Inventories

Inventories, which consist primarily of food, beverage and operating supplies, are stated at the lower of average cost or market value.

Land, Buildings and Equipment

Land, buildings, and equipment additions are stated at cost, including capitalized interest on intercompany funds used to finance construction calculated at Harrah's overall weighted-average borrowing rate of interest. The company capitalized approximately \$749 and \$563 of interest in 2006 and 2005, respectively.

Improvements that extend the life of the asset are capitalized. Building improvements are depreciated over the remaining life of the building. Maintenance and repairs are expensed as incurred.

Depreciation is provided using the straight-line method over the shorter of the estimated useful life of the asset or the related lease term, as follows:

Land improvements	12 years
Buildings and improvements	30 to 40 years
Furniture, fixtures and equipment	3 to 12 years

ATLANTIC CITY SHOWBOAT, INC.

Notes to Financial Statements

(Dollars In Thousands)

Land, Building & Equipment (Cont.)

The Company reviews the carrying value of land, buildings and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. When undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of the asset. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors.

Deferred Financing Cost

Costs associated with the issuance of debt have been deferred and are being amortized to interest expense over the life of the related indebtedness using the effective interest method.

Financial Instruments

The carrying amount of cash equivalents, receivables and all current liabilities approximates fair value due to their short-term nature. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties. After giving effect to their allowances, the Casino Reinvestment Development Authority (CRDA) bonds and deposits approximately indicate their fair value based upon their below market interest rates. The carrying amount of long-term debt is estimated to approximate its fair value as the stated rates approximate current rates.

Revenue Recognition

Casino revenues consist of net gaming wins. Food and beverage and rooms revenues include the aggregate amounts generated by those departments.

Total Rewards Program Liability

Our customer loyalty program, Total Rewards, offers incentives to customers who gamble at certain of our casinos throughout the United States. Under the program, customers are able to accumulate, or bank, Reward Credits over time that they may redeem at their discretion under the terms of the program. The Reward Credit balance will be forfeited if the customer does not earn a Reward Credit over the prior six-month period. As a result of the ability of the customer to bank the Reward Credits, we accrue the expense of Reward Credits, after consideration of estimated breakage, as they are earned. The value of the cost to provide Reward Credits is expensed as the Reward Credits are earned and is included in Casino expense on our Consolidated Statements of Income. To arrive at the estimated cost associated with Reward Credits, estimates and assumptions are made regarding incremental marginal costs of the benefits, breakage rates and the mix of goods and services for which Reward Credits will be redeemed. We use historical data to assist in the determination of estimated accruals. At December 31, 2006 and 2005, \$3,613 and \$3,850, respectively, was accrued for the cost of anticipated Total Rewards credit redemptions.

In addition to Reward Credits, customers can earn points based on play that are redeemable in cash ("cash-back points"). We accrue the cost of cash-back points, after consideration of estimated breakage, as they are earned. The cost is recorded as contra-revenue and included in Casino promotional allowances on our Consolidated Statements of Income. At December 31, 2006 and 2005, the liability related to outstanding cash-back points, which is based on historical redemption activity, was \$1,205 and \$1,048, respectively.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Promotional Allowances

Gross revenues include the retail value of complimentary food, beverage, theater and hotel services furnished to patrons. The retail value of these promotional allowances is deducted to arrive at net revenues. Recent accounting pronouncements on promotional allowances have been expanded to include cash rebates. The estimated cost of providing complimentary services and cash rebates to customers for the twelve months ended December 31, 2006 and 2005, respectively, were as follows:

	<u>2006</u>	<u>2005</u>
Food and Beverage	\$31,684	\$27,884
Rooms	12,241	11,730
Other	1,663	1,695
Bus Program Cash	15,480	15,803
Other Cash Complimentaries	<u>47,666</u>	<u>42,328</u>
	<u>\$108,734</u>	<u>\$99,440</u>

Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires the Partnership to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

(3) RELATED PARTY TRANSACTIONS

The Company participates with HOC and its other subsidiaries in marketing, purchasing, insurance, employee benefit and other programs that are defined and negotiated by HOC on a consolidated basis. The Company believes that participating in these consolidated programs is beneficial in comparison to the terms for similar programs that it could negotiate on a stand-alone basis.

Certain of the more significant intercompany relationships between the Company and HOC are discussed in this footnote.

Cash Activity with HOC and Affiliates

The Company transfers cash in excess of its operating needs to HOC on a daily basis. Cash transfers from HOC to the Company are also made based upon the needs to the Company to fund daily operations, including accounts payable and payroll, as well as capital expenditures. In addition, the Company transfers cash to HOC to reimburse HOC for payroll costs of certain HOC employees who provide services to the Company. No interest is earned on the amount shown as due from affiliates, net, in the accompanying financial statements.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Employee Benefits

The Company maintains a defined contribution savings and retirement plan in which the non-union employees of the Company may participate. The plan, among other things, provides for pre-tax and after-tax contributions by employees. Under the plan, participating employees may elect to contribute up to 50 percent of their eligible earnings. The employer matches 50 percent for the first six percent of employees' contributions. Amounts contributed to the plan are invested, at the participant's direction, in up to 16 separate funds, including a Harrah's company stock fund. Participants become vested in the matching contributions over five years of credited service. The Company's contribution expense for the years ended December 31, 2006 and 2005 was approximately \$886 and \$837, respectively.

HOC also maintains deferred compensation plans, stock option plans and an Executive Supplemental Savings Plan, under which certain employees of the Company may defer a portion of their compensation. The expenses charged by HOC to the Company for its employees' participation in these programs are included in the administrative and other services charge discussed below.

The Company's union employees are covered by union-sponsored, collectively bargained, multi-employer pension plans. Contributions are generally determined in accordance with the provisions of negotiated labor contracts and generally are based on the number of hours worked. Contributions to the plans were \$1,459 and \$1,287 during the twelve months ended December 31, 2006 and 2005, respectively.

Equity Incentive Awards

Harrah's maintains equity incentive awards plans in which employees of the Company may participate. Harrah's allocates an appropriate amount of cost for these awards to each subsidiary where employees participate.

Under these plans, non-qualified stock options, restricted stock, stock appreciation rights ("SARs"), performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards may be granted to employees or consultants of Harrah's and its subsidiaries, including the Company and members of Harrah's Board of Directors. Currently, only non-qualified stock options, SARs and restricted stock are outstanding under these plans.

Effective January 1, 2006, Harrah's adopted SFAS No. 123 (revised 2004), *Share-Based Payment*, using the modified prospective application and, therefore, Harrah's results for prior periods were not restated and no expense was allocated to the company.

Stock Options

Stock option awards typically vest in equal installments on January 1 following the grant date and on January 1 in each of the two subsequent years and allow the option holder to purchase stock over specified periods of time, generally seven years from the date of grant, at a fixed price equal to the market value at the date of grant. The Company recognized approximately \$357 for stock option expense in 2006. This expense is included in charges from affiliates in the accompanying statements of income.

Stock Appreciation Rights

SARs typically vest in equal installments on June 30 of the year following the year of the grant date and on June 30 in each of the two subsequent years. SARs allow the holder to receive a payment, in cash or stock, equal to the excess of the fair market value of a specified number of shares of stock on the date the SARs are exercised over an exercise price per share, which typically is the fair market value on the date the SARs were granted. The Company recognized approximately \$140 for SARs expense in 2006. This expense is included in charges from affiliates in the accompanying statements of income.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Restricted Stock

Restricted share grants of Harrah's stock have restrictions that may include, but not be limited to, the right to vote, receive dividends on or transfer the restricted stock. Restricted shares may be subject to forfeiture during a specified period or periods prior to vesting. These shares issued generally vest in equal annual installments over a three year period. The compensation arising from a restricted stock grant is based upon the market price of Harrah's stock at the grant date. Such expense is deferred and amortized to expense over the vesting period. The Company recognized approximately \$139 of compensation expense in 2006 related to Harrah's restricted stock. This expense is included in charges from affiliates in the accompanying statements of income in 2006.

Administrative and Other Services

The Company is charged a fee by HOC for administrative and other services (including consulting, legal, marketing, information technology, accounting and insurance). The Company was charged approximately \$10,478 and \$8,964 respectively for these services for the twelve months ended December 31, 2006 and 2005. These fees are included in Charges from Affiliates Other than Interest in the statement of income.

Rental Agreement

The Company leases 10½ acres of Boardwalk property in Atlantic City, New Jersey for a term ending in 2082 from an affiliate. Annual rent payments, which are payable monthly are adjusted annually based upon changes in the Consumer Price Index. The Company is responsible for taxes, assessments, insurance and utilities. Rent expense under this lease for the twelve months ended December 31, 2006 and 2005 was \$11,421 and \$10,846 respectively.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(4) PREPAID EXPENSES AND OTHER CURRENT ASSETS

As of December 31, 2006 and 2005, Prepaid Expenses and Other Current Assets consisted of the following:

	<u>2006</u>	<u>2005</u>
Prepaid Slot License	\$ 914	\$1,012
Prepaid Insurance	0	0
Deposits	48	48
Prepaid Advertising	1,268	1,225
Prepaid Contracts/Utilities	172	163
Prepaid Income Taxes	50	120
Prepaid Rent	972	911
Current Deferred Tax Asset	7,973	8,857
Other	<u>570</u>	<u>704</u>
	<u>\$11,967</u>	<u>\$13,040</u>

(5) INVESTMENTS, ADVANCES AND RECEIVABLES

As of December 31, 2006 and 2005, Investments, Advances and Receivables consisted of the following:

	<u>2006</u>	<u>2005</u>
CRDA Deposits (Note 13)	\$ 18,892	\$ 19,996
CRDA Bonds (Note 13)	<u>21,519</u>	<u>21,464</u>
	<u>40,411</u>	<u>41,460</u>
Less: Valuation Allowance on CRDA Investments	<u>(9,787)</u>	<u>(12,013)</u>
CRDA Investments, Net	30,624	29,447
Due From Affiliates	<u>1,600,755</u>	<u>1,499,492</u>
	<u>\$1,631,379</u>	<u>\$1,528,939</u>

Due From Affiliates consisted of the following:

	<u>2006</u>	<u>2005</u>
HARRAH'S	\$1,592,954	\$1,499,118
Harrah's Atlantic City	6,326	61
Rio Las Vegas	1,133	0
Showboat Indiana	14	14
Harrah's Lake Tahoe	19	19
Harrah's Joliet	10	8
Harrah's Ak-Chin	238	238
Harrah's North Kansas City	<u>61</u>	<u>34</u>
	<u>\$1,600,755</u>	<u>\$1,499,492</u>

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

(6) LAND, BUILDINGS AND EQUIPMENT

As of December 31, 2006 and 2005, Land, Building and Equipment consisted of the following:

	<u>2006</u>	<u>2005</u>
Land and Land Improvements	\$ 23,247	\$ 23,222
Building and Improvements	508,491	482,418
Furniture, Fixtures and Equipment	178,842	207,682
Construction in Progress	28,636	15,438
Other property and equipment	<u>507</u>	<u>508</u>
	739,723	729,268
Less-accumulated depreciation and amortization	<u>(291,640)</u>	<u>(311,688)</u>
	<u>\$448,083</u>	<u>\$417,580</u>

(7) OTHER ACCRUED EXPENSES

As of December 31, 2006 and 2005, Other Accrued Expenses consisted of the following:

	<u>2006</u>	<u>2005</u>
Salaries and Wages	\$ 8,576	\$ 8,092
Taxes, Other Than Taxes on Income	2,656	2,458
Accrued Advertising and Promotion	1,363	1,123
Accrued Interest	9,565	57,388
Other	<u>7,857</u>	<u>3,843</u>
	<u>\$30,017</u>	<u>\$72,904</u>

(8) LONG-TERM DEBT

On May 18, 1993, SBO issued \$275,000 of 9 1/4% First Mortgage Bonds due 2008 ("9 1/4% Bonds") and subsequently loaned approximately \$215,000 of the proceeds to the Company evidenced by an intercompany note with terms and conditions consistent with those of the 9 1/4% Bonds. Subsequent to the acquisition of SBO by Harrah's on June 1, 1998, Harrah's completed tender offers and consent solicitations for SBO's 9 1/4% Bonds. As a result of the receipt of the requisite consents, Harrah's eliminated or modified substantially all of the negative covenants, certain events of default and made other changes to the respective indentures governing the 9 1/4% Bonds.

On January 15, 1999, the Company entered into a \$500,000 intercompany promissory note with HOC. The debt terms are consistent with the provisions of third party credit agreements arranged by HOC. The intercompany note is due on January 15, 2009, and is secured by the assets of the Company. Interest is payable semiannually at a rate of 7 1/2%.

On March 12, 2003, both the 9 1/4% Bonds and the 7 1/2% Promissory Note were assigned by their respective holders to Harrah's Entertainment Limited, formerly known as Gaming Entertainment Limited. The terms and amounts of the debt were not affected by this assignment. The only notable change resulting from the assignment was a change in the timing of interest payments.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Long-Term Debt (Cont.)

Prior to the assignment interest payments were made semiannually. Throughout the remainder of 2003 interest payments were made on a monthly basis. However, for subsequent tax years, interest payments will be remitted annually, payable in the following year. As of December 31, 2006 and 2005, there was accrued interest of \$9,565 and \$57,388 respectively.

(9) OTHER LIABILITIES

As of December 31, 2006 and 2005, Other Liabilities consisted of the following:

	<u>2006</u>	<u>2005</u>
Due to Affiliates, Long-Term	\$1,252,319	\$1,101,745
Other	<u>75</u>	<u>165</u>
	<u>\$1,252,394</u>	<u>\$1,101,910</u>

Due To Affiliates, Long Term consisted of the following:

	<u>2006</u>	<u>2005</u>
HARRAH'S	\$861,345	\$702,543
SBO	380,566	380,566
Harrah's Las Vegas	6,449	6,441
Harrah's Reno	45	45
Harvey's Tahoe	691	691
Harrah's Laughlin	87	85
Horseshoe Tunica	5	5
Rio Las Vegas	0	105
OSI	38	38
Harrah's Atlantic City	0	10,185
Bally's Atlantic City	1,689	172
Caesars Atlantic City	536	1
Showboat Operating Company	<u>868</u>	<u>868</u>
	<u>\$1,252,319</u>	<u>\$1,101,745</u>

(10) LEASES

The Company leased a warehouse under a long-term lease agreement that was capitalized as a capital lease. The Company had the option to purchase the warehouse from January 1, 2006 through March 31, 2006 at an option price of approximately \$1,928. As of January 31, 2006 the warehouse lease was terminated.

ATLANTIC CITY SHOWBOAT, INC.
Notes to Financial Statements
(Dollars In Thousands)

Leases (Cont)

Leases (with initial or remaining terms in excess of one year) as of December 31, 2006:

Year ending December 31,	<u>Operating Leases</u>
2007	15
2008	8
2009	1
2010	0
Total minimum lease payments	<u>\$0</u>
Less amount representing interest	
Present value of minimum lease payments	

The Company has operating leases for office space, office equipment, and slot machines, which expire on various dates through 2006. Rental expense included in the accompanying statement of income for the twelve months ended December 31, 2006 and 2005 was approximately \$4,071 and \$3,139, respectively.

(11) INCOME TAXES (BENEFIT)

The Company is included in the consolidated federal tax return of Harrah's and files a separate New Jersey tax return. The provision for federal income taxes is computed based on the statutory federal rate as if the Company had filed a separate income tax return. The provision for state taxes is based on the statutory New Jersey tax.

Deferred income taxes reflect the net tax effects of temporary difference between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

For the years ended December 31, 2006 and 2005, Income Tax Expense (Benefit) consisted of the following:

	<u>2006</u>	<u>2005</u>
Federal:		
Current	\$1,222	\$7,867
Deferred	<u>3,252</u>	<u>141</u>
	<u>4,474</u>	<u>8,008</u>
State :		
Current	2,137	2,721
Deferred	<u>543</u>	<u>(498)</u>
	<u>2,680</u>	<u>2,223</u>
Total		
Current	3,359	10,588
Deferred	<u>3,795</u>	<u>(357)</u>
	<u>\$7,154</u>	<u>\$10,231</u>

ATLANTIC CITY SHOWBOAT, INC.**Notes to Financial Statements****(Dollars In Thousands)****Income Taxes (Benefit) (Cont.)**

Temporary differences between the financial statement carrying amounts and tax basis of assets and liabilities that give rise to significant portions of the net deferred tax liability relate to the following:

	<u>2006</u>	<u>2005</u>
Deferred tax assets:		
Self Insurance Reserves	\$31	\$67
Accrued Compensation & Related Ben.	1,177	1,132
Allowance Doubtful Accounts	655	434
Grantor Trust	7,143	8,158
Other	<u>4,963</u>	<u>8,607</u>
Total Deferred Tax Assets	13,969	18,398
Deferred Tax Liabilities:		
Depreciation and Amortization	<u>(37,799)</u>	<u>(38,433)</u>
Net Deferred Tax Liability	<u>\$ (23,830)</u>	<u>\$ (20,035)</u>

(12) NON-OPERATING INCOME (EXPENSE)

For the twelve months ended December 31, 2006 and 2005, Non-Operating Income (Expense) consisted of the following:

	<u>2006</u>	<u>2005</u>
Interest Income	\$ 1,573	\$ 1,284
Preopening/Demolition Expense	(1,314)	(6,552)
Gain/Loss on Asset Sales	225	3
Other Non Operating Expense	<u>(1)</u>	<u>(3,615)</u>
	<u>\$483</u>	<u>\$(8,880)</u>

(13) COMMITMENTS AND CONTINGENCIES**Litigation**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, these matters will not have a material effect on the Company's financial position or results of operations.

CRDA Investment Obligation

The New Jersey Casino Control Act provides, among other things, for an assessment of licenses equal to 1.25% of their gross gaming revenues in lieu of an investment alternative tax equal to 2.5% of gross gaming revenues. The Company may satisfy this investment obligation by investing in qualified eligible direct investments, by making qualified contributions or by depositing funds with the CRDA.

ATLANTIC CITY SHOWBOAT, INC.

Notes to Financial Statements

(Dollars In Thousands)

CRDA Investment Obligation (Cont.)

Funds deposited with the CRDA may be used to purchase bonds designated by the CRDA or, under certain circumstances, may be used for donations designated by the CRDA in exchange for credits against future CRDA investment obligations. CRDA bonds have terms up to 50 years and bear interest at below market rate.

The Company includes CRDA investment bonds and funds on deposit in deferred charges and other non-current assets in the accompanying balance sheets. The Company records charges to operations to reflect the estimated net realizable value of its CRDA investment obligations.

Deposits with the CRDA bear interest at two-thirds of market rates resulting in a current value lower than cost. As more fully disclosed in Note 5, at December 31, 2006 and 2005, Investments, Advances, and Receivables include \$30,624 and \$29,447 respectively, representing the Company's bond purchases and deposits with the CRDA, net of the valuation allowance. The carrying value of these deposits, net of the valuation allowance, approximates fair value.

The twelve Atlantic City casino properties (the "AC Industry") and the CRDA have entered into an agreement with the New Jersey Sports & Exposition Authority (the "NJSEA") to provide funding to subsidize New Jersey's horseracing industry. In exchange for this funding, the NJSEA and the three active New Jersey racetracks will not conduct any casino gaming at the racetracks prior to January 1, 2009. As part of the agreement, the AC Industry will provide \$34,000 over a four year period to the NJSEA and must deposit another \$62,000 into the Casino Expansion Fund (managed by the CRDA). The \$62,000 will be derived from funds either currently on deposit or to be deposited with the CRDA pursuant to each casino property's investment obligation. The Company's obligation is equal to its fair-share of AC Industry casino revenues. The Company estimates this commitment over the four year period to be \$2,717 the first payment of which was made November 2004. This amount will be charged to operations on a straight line basis through January 1, 2009. Once the Company meets its deposit obligation related to its fair share of the \$62,000, the Company is eligible to receive funds from the Casino Expansion Fund for qualified construction expenditures. The Company has until June 30, 2014 to submit an application to exhaust its share of the Casino Expansion Fund. Any funds not transferred out of the Casino Expansion Fund by the required date will be transferred to funds on deposit with the CRDA pursuant to its ongoing investment obligations.

ATLANTIC CITY SHOWBOAT, INC.
ANNUAL FILINGS
FOR THE YEAR ENDED DECEMBER 31, 2006

**SUBMITTED TO THE
CASINO CONTROL COMMISSION
OF THE
STATE OF NEW JERSEY**



**DIVISION OF FINANCIAL EVALUATION
REPORTING MANUAL**

ATLANTIC CITY SHOWBOAT, INC.

SCHEDULE OF RECEIVABLES AND PATRONS' CHECKS

FOR THE YEAR ENDED DECEMBER 31, 2006

(UNAUDITED)
(\$ IN THOUSANDS)

ACCOUNTS RECEIVABLE BALANCES

Line (a)	Description (b)	Account Balance (c)	Allowance (d)	Accounts Receivable (Net of Allowance) (e)
	Patrons' Checks:			
1	Undeposited Patrons' Checks.....	\$4,613		
2	Returned Patrons' Checks.....	2,840		
3	Total Patrons' Checks.....	7,453	\$1,528	\$5,925
4	Hotel Receivables.....	211	75	\$136
	Other Receivables:			
5	Receivables Due from Officers and Employees....	-		
6	Receivables Due from Affiliates.....	-		
7	Other Accounts and Notes Receivables.....	9,809		
8	Total Other Receivables.....	9,809		\$9,809
9	Totals (Form CCC-205).....	\$17,473	\$1,603	\$15,870

UNDEPOSITED PATRONS' CHECKS ACTIVITY

Line (f)	Description (g)	Amount (h)
10	Beginning Balance (January 1).....	\$2,361
11	Counter Checks Issued.....	100,154
12	Checks Redeemed Prior to Deposit.....	(62,680)
13	Checks Collected Through Deposits.....	(30,054)
14	Checks Transferred to Returned Checks.....	(5,168)
15	Other Adjustments.....	0
16	Ending Balance.....	\$4,613
17	"Hold" Checks Included in Balance on Line 16.....	0
18	Provision for Uncollectible Patrons' Checks.....	\$1,141
19	Provision as a Percent of Counter Checks Issued.....	1.1%

ATLANTIC CITY SHOWBOAT, INC.

EMPLOYMENT AND PAYROLL REPORT

AT DECEMBER 31, 2006

(\$ IN THOUSANDS)

Line (a)	Department (b)	Number of Employees (c)	Salaries and Wages		
			Other Employees (d)	Officers & Owners (e)	Totals (f)
	CASINO:				
1	Table and Other Games	552			
2	Slot Machines	112			
3	Administration	11			
4	Casino Accounting	155			
5	Simulcasting	1			
6	Other	92			
7	Total - Casino	923	\$25,661	\$230	\$25,891
8	ROOMS	348	8,486	171	8,657
9	FOOD AND BEVERAGE	958	19,598	126	19,724
10	GUEST ENTERTAINMENT	155	929		929
11	MARKETING	4	226	71	297
12	OPERATION AND MAINTENANCE	216	8,165		8,165
	ADMINISTRATIVE AND GENERAL:				
13	Executive Office	4	192	843	1,035
14	Accounting and Auditing	65	2,665	162	2,827
15	Security	125	4,193		4,193
16	Other Administrative and General	31	4,009	62	4,071
	OTHER OPERATED DEPARTMENTS:				
17	PBX	6	246		246
18	Parking	14	280		280
19					0
20					0
21					0
22					0
23	TOTALS - ALL DEPARTMENTS	2,849	\$74,650	\$1,665	\$76,315

SHOWBOAT

ANNUAL GROSS REVENUE TAX RETURN

FOR THE YEAR ENDED DECEMBER 31, 2006

Line

GROSS REVENUE:	
1. Table and Other Games.....	\$ 66,979,072
2. Slot Machines	362,534,606
3. Total Gross Revenue.....	<u>429,513,678</u>
4. Adjustments.....	<u>20,399</u>
5. Taxable Gross Revenue (line 3 plus line 4).....	<u>429,534,077</u>
6. Tax on Gross Revenue - Reporting Year (8% of line 5).....	<u>34,362,726</u>
7. Audit or Other Adjustments to Tax on Gross Revenues in Prior Years	<u>-</u>
8. Total Taxes on Gross Revenue (the sum of lines 6 and 7).....	<u>34,362,726</u>
9. Total Deposits Made for Tax on Reporting Year's Gross Revenue.....	<u>(34,362,726)</u>
Settlement of Prior Years' Tax on Gross Revenue	
10. Resulting from Audit or Other Adjustments - (Deposits) Credits	<u>-</u>
11. Gross Revenue Taxes Payable (the net of lines 8, 9 and 10)	<u>\$ 0</u>

Under penalties of perjury, I declare that I have examined this Annual Gross Revenue Tax Return and to the best of my knowledge and belief, the information contained in this return is accurate.

3/10/07
Date



Gail Myers

Operations Controller 3470-11